LETTERS

ON

THE CRISIS, THE CURRENCY,

AND

THE CREDIT SYSTEM.

BY

HENRY CAREY BAIRD.

PHILADELPHIA:
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THE TREASURY DEPARTMENT AND THE CRISIS.

To the Editor of the Evening Telegraph:—

An Associated Press dispatch from Washington, under date of 27th inst., contains the following statement:—

"The Secretary of the Treasury is no longer troubled with telegrams of inquiry from financial sources. No excitement whatever exists in that department, and the Executive Department is equally free from it. Since the official announcement that the President and Secretary could do nothing more to relieve the present pecuniary embarrassment, no suggestions have been received from any quarter. The Treasury is discharging all its business as usual, with no interruption in any branch of it, and all the officials are as calm as if there had been no financial storm."

We may well be prepared to accept this statement as being literally true, when we consider how persistently, since the close of the war, the Treasury Department has labored to divorce itself and its affairs from the people and theirs. Even at the commencement of the war, Mr. Chase started out with this selfish policy, and when in August, 1861, the finances of the Government had experienced a total paralysis, the New York banks and merchants uniting with the banks and capitalists of Boston and Philadelphia, furnished the Government with $50,000,000, followed by an equal sum October 1, and by $46,000,000 in addition November 16, we have the authority of James Gallatin, the distinguished President of one of the leading banks of New York, for saying that "all he did was to insist on drawing the specie from them for the proceeds of the loans, which the most experienced bank officers told him must result in disaster and in suspension of specie payments." Nothing but the overwhelming exigencies of the war forced Mr. Chase and his successors into perfect financial accord with the people, and nobly did the latter sustain the Government.

So soon, however, as peace came and Mr. McCulloch felt that he could, safely for himself, sever this copartnership, as it really was, regardless of the hundreds of thousands of soldiers who, surviving the bloody strife, must find employment or starve; of our productive industries, which had just lost a customer in the United States for hundreds of millions of dollars per annum; of the people who had grandly helped the Government in its hour of peril, and had contracted debts or purchased property in a currency the volume of which had been made to conform to the necessities of the National Treasury alone; or of the South, which was ruined and disloyal, and needed to be made at once prosperous and loyal, he insisted

upon being allowed to retain internal war taxes, and almost immediately commenced the work of the contraction of the United States currency—this contraction amounting to over $270,000,000 during his administration of the department.

This has since been followed up by essentially the same line of policy—the Treasury relying largely upon foreign bankers and foreign loans, failing all the while to see that the fact of our own people being unable to carry the indebtedness of the nation, as they had done during the dark hours of the war, furnished evidence conclusive of a decline in power, and of such blundering in the laws or in their administration, as called for investigation and a remedy.

The present Secretary, if he persist in following the course he has now entered upon, of turning a deaf ear to the cries of the people until all is ruin around him, will ere long discover that he cannot get on without those people, and that to have a prosperous and overflowing Treasury he must be surrounded by prosperous and happy fellow-citizens. Under such an adverse condition of things as will be created, it cannot take long to experience an actual loss in the receipts of public revenue in excess of $44,000,000. Let him read, again, the history of the fall of 1857, and he will find that while during that time Secretary Cobb purchased at a large premium U. S. bonds not yet due, he was obliged December 23, 1857, to obtain from Congress authority to issue Treasury notes, under which act $23,716,300 of such notes were issued. In those days (on July 1, 1857) the public debt of the United States was $29,000,000, and the Government had but little need to seek a financial alliance with the people. To-day the debt is over $2,100,000,000, and the government is bound to and with the people "for better or for worse, for richer or for poorer," for life or for death, in the closest and most indissoluble of ties. Let the Secretary therefore take warning ere it be too late; and when to the losses of the people are added those of the Government itself. Should he venture too far, he may find it impossible to obtain, without purchase, the supplies of gold which he will hereafter need. Then, after losing his revenues, he may have to issue his greenbacks to cover a deficiency caused by the ruin of the country. If this issue be now necessary to prevent these sad contingencies, will not the Secretary therein find a full and sufficient justification for such issue, as well in law as in conscience? During the war the Government overleaped such trifling barriers every day, and indeed almost every hour. Had it not so done, this nation, as such, would have "perished from off the earth."

HENRY CAREY BAIRD.

PHILADELPHIA, Sept. 29, 1873.

[From the Philadelphia Evening Telegraph, October 15, 1873.]

The Bank Check, *and* Not the Circulating Note *the great Monetary Instrument of the Age.*

The Contractionist on a False Scent.

To the Editor of the Evening Telegraph:—

In nothing may we more certainly or more surely detect the false teacher, than in his inconsistencies—his failure to carry out his doctrines to their logical conclusions, and to stand by them, especially in the practical affairs of life. Let us, for a moment, subject to this test the contractionist—the man who has a holy and a perennial horror of what he is pleased to call "an inflated, irredeemable paper currency.' He carries on a perpetual, a never-ceasing war of words against the circulating note, *the little monetary instrument*, which is daily and hourly needed in all the small transactions of life, and which enables the people of the present day to make their exchanges freely, promptly, and satisfactorily, unobstructed by those difficulties which in primitive times resulted in barter, long credits, open accounts, and societary stagnation.

This contractionist has, however, never been known to interpose any objection whatsoever, on the score of either law or expediency, to the BANK CHECK —*the great monetary instrument of civilization.* This instrument, it is, which to-day is the powerful lever that moves the business of the world, *and the volume of which, created in any period of forty-eight hours of business activity, in almost any great trading community or country, is equal to the entire amount of notes and specie in circulation in such community or country.* For instance, the amount of such checks passing through the London Clearing House, for the year ending April 30, 1873, was $30,000,000,000, or nearly $100,000,000 per day; while that of those going through the New York Clearing House for the year ending October, 1872, was $33,844,369,568, or $105,964,277 per day. Further, this contractionist has never been known to express the least enmity to the Clearing House, the institution which, above all other inventions, leads to the greatest economy in the use of bank notes. For instance, the average daily balances paid through the New York Clearing House in settlement of the clearings above named, were but $3,939,265, *or less than three and three-quarters per cent.*, so that by the intervention of this institution, $3 75 are made to do the work which would require $100 without it,* and which in fact does require $100 in the country, where men are isolated.

* The clearings of the London Clearing House are effected without the use of circulating notes at all, being made by checks drawn upon the Bank of England.

Surely here is a field, extended enough for the exercise of the contractionist's great genius, as a philosophical financier and a reformer! Suppose for a season, he was to allow a respite to the little monetary instrument, and try his hand at a tilt against the great monetary instrument, the bank check, and what may be called *the labor-saving machinery of finance*—the Clearing House. The advantage to society, in having him thus to change his point of attack, would be that his adversaries, intrenched in the intelligence and interwoven with all of the grand affairs of the people, would be too great and powerful for him. Within twenty-four hours after he had advanced sufficiently far to threaten society with his complete success, that society would as one man rise up and drive him into oblivion, and never again throughout all time, would he be regarded as the teacher of a true and beneficent doctrine.

Let us see what might be expected to be the effect of a successful attack upon the bank check and the Clearing House system.

On April 23, 1873, the capital of the national banks of the United States was $487,891,251, and their circulation $338,163,864. They held the following notes in their possession:—

Bills of National Banks	$19,276,210
Bills of State Banks	38,992
Fractional Currency	2,198,973
Legal-tender notes	99,935,287
U. S. certificates of deposit of legal-tenders (equivalent to the notes)	17,215,000
	$138,664,462

Suppose all these resources placed at the command of the banks of New York, and that then it be made unlawful for the bank check to be used for any purpose whatsoever, other than to draw the money directly from its proper bank, without passing through any hands but those of the drawer, or through any other bank. This would at one blow annihilate the great monetary instrument, and the Clearing House system—an end perfectly consistent with, and logically flowing from, the doctrine of the contractionist; for if the State should not itself make, or allow others to make, circulating notes beyond a certain arbitrary limit, why should every man who keeps a bank account be permitted to make circulating checks at pleasure, and the banks to keep up a Clearing House, where these checks are cleared with but $3 75 of circulating notes for every $100 of their amount?

The average daily clearings of checks in the New York Clearing House being, as we have seen, $105,964,277, and the total amount of currency held by all of the national banks in the United States being $138,664,462, without that Clearing House, the actual payment of all of these checks over the counter would at the end of the first day leave but $32,700,185, without any provision for checks not now passing through the Clearing House.

These latter checks under this *new, improved*, and *enlightened* system of forcing the world to use circulating notes for fear of an "inflation of prices," might possibly be taken care of by the deposits of the day, although were it possible to hold out but a few days, even this resource would fail, as a very large proportion of the circulation of the country would soon be required for remittances, but would be totally inadequate, and would ever be travelling by express or by mail throughout the length and breadth of the land, until societary death ensued, and remittances were made no more. But one day's experiment of the contractionist plan would quite satisfy the banks and the people that the contractionist was an enemy of the State, of the people, and of business in all its branches, and that he deserved to be treated as such, and that he should never again be allowed to meddle with such vital questions; for this crisis of his production would be *the* financial crisis in the world's history.

But we shall probably be told that the American system of monetary affairs, checks, and bank credits, is all wrong, and is itself a system of inflation arising out of our "inflated, irredeemable paper currency." Let us then look at the British system, and compare it with our own. R. H. I. Palgrave, Esq., a recent able writer and careful and laborious investigator of banking statistics, in a paper read before the Statistical Society of London, of which he is a member, declares, upon data admitted to be sound, that the deposits of the British banks amount to £584,000,000, or about $2,900,000,000, against which they hold a cash reserve of but *four* (4) *per cent.*, or say $116,000,000.* On the other hand, the deposits of the national banks of the United States, April 25, 1873, were but $664,190,598, against which they held a reserve of specie and legal-tender items alone of $134,019,095, or over *twenty* (20) *per cent.!* Which system, let us now ask, shows the greater degree of "inflation," that of Great Britain, with her so-called specie payments, or our own with our "irredeemable paper money"?

The fact is that no other country in the world has for a century or more, in its financial affairs, been so completely under the control of men of whom our contractionist is the type, as Great Britain. In England the privilege of issuing circulating notes is a monopoly almost wholly in the hands of the Bank of England, and the system with this institution is of the most cast-iron character imaginable, and no notes are allowed under five pounds. The Government has even failed to respond to the urgent and oft-repeated

* "There is no country at present, and there never has been any country before, in which the ratio of the cash reserve to the bank deposits was so small as it is now in England. So far from our being able to rely on the proportional magnitude of our cash in hand, the amount of that cash is so exceedingly small that a bystander almost trembles when he compares its minuteness with the immensity of the credit which rests upon it." *Lombard Street: A Description of the Money Market.* By WALTER BAGEHOT, Editor of "The Economist," London, 1873, p. 18.

demand of the people for the coinage of a larger supply of silver for small change, which is actually greatly needed. Having given the country an inadequate supply of the little monetary instrument—the circulating note—what more natural result could be looked for than that a people so active and enterprising, and so given to manufacturing, trading, and speculation, should supply themselves with an immense reservoir of bank credit, against which they could freely draw bank checks, thus largely availing themselves of the use of the great monetary instrnment? What result more certain, than that, with a more liberal supply of circulating notes, there should be more transactions for cash, and at the same time *a wider and a firmer base for a smaller system of bank and individual credits,** and consequently greater security against the recurrence of those commercial crises which have taken place so often and proven so disastrous in Great Britain? So far, then, from following the advice and the lead of the American contractionist, who is wholly and fatally on a false scent, and of *decreasing* the supply of the little monetary instrument—the circulating note—we should *increase* it, and thus make broader, more firm, and more enduring the foundation, while decreasing the superstructure of credit and of the great monetary instrument.

The most beautiful, the most perfect, and the most certain plan ever devised or suggested by man for the accomplishment of this grand object—financial stability—is to be found in that which is daily enlisting new advocates, and which proposes simply *a full supply of national paper money having the feature of interchangeability, at the option of the holder, with Government bonds, bearing a fixed rate of interest.* In such interchangeability there is "a subtile principle that will regulate the movements of finance and commerce as accurately as the motion of the steam-engine is regulated by its governor." This principle is the one which will *always cause to be maintained in practice, the true and sound relation between the volumes of the little monetary instrument—the circulating note, the great monetary instrument—the bank check, and bank credits.* Without the maintenance of such relation, financial stability is an utter impossibility.

HENRY CAREY BAIRD.

PHILADELPHIA, October 13, 1873.

* This principle is well illustrated and enforced, by the condition of things which existed in this country at the end of the War of the Rebellion, in 1865, before Mr. McCulloch had commenced his experiment of contraction and when the people were more free from debt, in proportion to the volume of business, than at any previous period in our history. The reverse of the picture is to be seen at the present moment.

[From the Philadelphia "Evening Telegraph," of November 8, 1873.]

THE THEORY OF INFLATION.

A Critical Examination of a Ruinous Popular Fallacy.

To the Editor of the Evening Telegraph:—

More than a century ago David Hume published his *Essay on Money*, which consists of a succession of brilliant but disjointed thoughts, part truths, part fallacies, so intermingled, and so plainly inconsistent one with another, that the reader is at times at a loss to know whether the author be a believer in the advantages of a constant, an increasing, or a decreasing volume of money in any community or country. However, the so-called principles, the assumed-to-be truths of the contractionist are derived from this very source, which is the real and original fountain-head of this contractionist's monetary philosophy. This philosophy has but little even to-day to offer us which is not drawn from Hume, and in the main it is but the carrying out to its logical conclusion of a single one of his leading propositions.

Senator Sherman, for instance, deeply imbued with this one doctrine, has in an official paper committed himself in the fullest manner to it and its consequences, and from him we may learn to what extent these consequences go. In reference to the reissue of the so-called "reserve" of $44,000,000, Mr. Sherman, in a report of the Senate Finance Committee, January, 1873, said that "the full exercise of such a power would undoubtedly affect the nominal value of all property in the United States to the extent of at least 10 per cent., and the real value or burden as between debtor and creditor at least 10 per cent. on all contracts to be performed *in futuro.*"

Let us now see how this would work in actual practice. The value of all the property in the United States in 1870 was $30,000,000,000, so its increase by 10 per cent. would add to it $3,000,000,000. Can any more extraordinary assumption well be imagined, than that $44,000,000 of currency should have the power to add to the value of the existing property of this country $3,000,000,000, or over sixty-eight times its own volume?

From what observation of facts, and by what form and manner of reasoning, can this conclusion be arrived at? Why, first by the gratuitous

assumption of Hume, that the prices of all things in any country, at any and at all times, are fixed as they so stand in that country "by the proportion between commodities and money" in that country, and then, further, by the easy step that any increase of money, without an increase of commodities, must increase prices in exact proportion.

But if prices depend solely upon "the proportion between commodities and money," how is it that with but $750,000,000 of currency in this country, we find $30,000,000,000 of commodities and other property? According to the dictum of the school, we should look for and find but $750,000,000. It will not do to tell us that this money circulates, and thereby gives value to $30,000,000,000 of commodities and other property. This is not in harmony, but in direct conflict with the teachings of the school. With it money is, as it were, but an inert, lifeless mass, possessing what may be termed *statical*, but not *dynamical* qualities—a mere yardstick or dead-weight, which by its own simple and single length or ponderosity, acts as an inflexible, unyielding determiner of the value of the total mass of the commodities in a country. To tell us that it circulates, and thus has a new power, a new function, a new office, is to change the very terms of the proposition. But even if this new factor be thus dragged in, it must be on the necessary condition that at all times, and in all places, and among all peoples, money circulates at a given and constant rate of velocity. There can be no possible escape from this necessity. Upon which horn of the dilemma then, will the contractionist hang—that of asserting of money that it possesses no life-giving property; or that, while possessing such power, that power always and everywhere acts with equal force? One or the other he must take, and each is equally opposed to experience as well as to common sense.

But, further, with his inflexible effect of the "proportion between commodities and money," the disciple of Hume is forced into the additional and necessary logical position of maintaining that no increased amount in the production of commodities, by the application of steam and machinery; by the subjugation of new lands to the control of man, or the improvement of the old ones; by the discoveries of science, or by the arts of civilization; by the increase of population or of intelligence; even be the results such as to give a yield of ten, twenty, or fifty fold, as compared with that of the past, can add one dollar to the aggregate value of those commodities unless accompanied by an increase of currency! Will even our American contractionist seriously maintain a proposition so utterly absurd, so notoriously false? We think not.

Let us now inquire what are the real forces at work in governing prices? They are—the quantities of the commodities, the cost of

reproduction, the number of the persons desiring to possess such commodities, and the means at the command of such persons towards such possession. Hence we find that in all countries almost exclusively engaged in agriculture, the prices of agricultural products and of labor are low. There being but few persons not engaged in agriculture, there can be but a limited demand for its products, and for the same reason—an absence of a diversified industry—there is but a feeble societary life, and but little demand for labor. And here we instance India, in which have been mined for perhaps twenty centuries, and into which have flowed from abroad for a century, in a large and of late years, in an immense volume, the precious metals. These phenomena are accompanied, too, by low prices for labor and for almost every native product. Here it is evident that the distribution of the precious metals is so unequal that, while vast in amount, these metals give purchasing power to but few. It is clear then that in India, at least, the great principle of "inflation" does not work! Real principles work uniformly, each in its own manner and form, while false ones do not; and here is an unfailing touchstone by which to test the truth of any and all such claiming to be real and true ones. That of inflation, when thus tried, is found wanting.

The cost of reproduction of manufactured articles is comparatively low in all countries in which a diversified industry has been developed to a high degree, and in which labor-saving machinery takes the place of the labor of unaided human hands. Into such countries—into Germany, France, and Belgium, for instance—the precious metals have for many years flowed in one continuous stream, and have there accumulated, while labor has risen in value, by reason of the increased demand for it; but the prices of manufactured products have largely fallen, because of the increasing power of steam and machinery. Manufactured goods flow out of these countries, in an ever-increasing volume, to lands which have not developed their industries, and in which labor is low, and which export their precious metals. Surely, Germany, France, and Belgium, with their immense acquisitions of the precious metals, and each with the addition of a large circulation of notes, do not present a single fact going to support the theory of inflation.

In the number of persons in a country desiring to possess, by purchase, commodities the productions of their own countrymen, we have an almost unerring measure of the diversification of employments in that country, for the greater the differences the greater and the more rapid will be the intercourse and the demand for such commodities. But here the money question only enters so far as that money succeeds in quickening societary life into vigorous and healthful action. The function here exhibited is not that of the mere yardstick or the pound weight, but is

closely analogous to that of the blood that courses freely through the veins and arteries of the healthy animal organism. In such a state we have not alone consumption, but production, the two constituting a happy and a harmonious balance of forces—an exhibition of phenomena entirely the reverse of the discords so confidently held by the disciples of Hume. During the late War of the Rebellion this balance was greatly disturbed by the abstraction of a large number of able-bodied men from production, and by the enormous demands of the government for subsistence, clothing, and the materials of war generally. From this cause and from excessive taxation—a measure, in part, of the demands of the government for commodities—prices rapidly advanced, and yet the schoolman could see nothing in these results but an evidence of the truth of his delusion—inflation.

Having seen that prices cannot be governed by "the proportion between commodities and money," but that they are largely dependent upon the quantities of commodities, the cost of reproduction, and the number of persons desiring to possess such commodities; let us now inquire how the means at the command of such persons towards such possession affect prices and how far it is possible, by legislative enactment, to keep those means from the possession and control of the people.

The general and wide dissemination of wealth among a people must exert a strong influence towards advancing prices among such people so far as consumption alone can do it, by increasing the body of consumers; while, on the contrary, an equal amount of wealth concentrated in the hands of a few will exert less influence in that direction, for the reason that while these favored ones may live in luxury, the many may hardly be able to command the mere necessaries of life, and the great aggregate of consumption be thus limited. These two conditions are well illustrated, the first in the United States, and the last in Great Britain. However, even the effect of a large measure of consumption is to result in a conteracting one—production, which may and often does check any advance in prices.

Let us now see how far a State can, by legislative enactment, so interpose its fiat as to succeed in preventing its people from purchasing and consuming, or holding for speculative ends, such commodities as they are bent on having—for this is really the question before us, once that we have disposed of the theory that prices depend upon "the proportion between commodities and money." Our illustrations and examples shall be taken from Great Britain. That country has, for a century or more, in its financial affairs, been completely under the control of men of the school of Hume, and during the latter half of this

period she has maintained so-called specie payments. There, where every effort has been made to carry out the system, may we look for the ripened fruit of it. In England all notes under £5 have been interdicted, and it has only been by reason of her native pluck and energy that Scotland has been enabled to obtain and retain them, after more than one severe contest.

A recent intelligent English writer on finance and banking estimates

The gold and silver in circulation in Great Britain at	£70,000,000	$339,500,000
The circulation of the Bank of England, Oct. 16, 1872, was	34,328,708	166,500,000
The notes in circulation in the United Kingdom, other than those of the Bank of England, September, 1872, were as follows:—England, £5,057,910; Scotland, £5,313,560; Ireland, £7,242,081	17,613,551	85,425,000
Total		$591,425,000

Here we have in less than $600,000,000, the circulating medium expressly provided by the government for its people, either by its own coinage or through those institutions which it has permitted to issue circulating notes. But is this medium, with its capacity for vital work, a full measure of the purchasing power at the command of the people of Great Britain? Has the Englishman been content to feel that here are the monetary instruments placed at his disposal by his Parliament and sovereign, and that with these alone and none others shall he work? By no means!

R. H. I. Palgrave, Esq., a recent able writer and statistician, in a paper read before the Statistical Society of London, of which he is a member, declares upon data admitted to be sound, that the deposits of the British banks amount to £584,000,000, or nearly $2,900,000,000. The same writer, in his *Notes on Banking*, from a very careful analysis of the sales of stamps for bills payable for a series of years, estimates the average amount of bills in existence at any one time in 1870–71 as follows:—

Inland or domestic bills	£210,850,000	
Foreign bills drawn on England . . .	30,700,000	
	£241,550,000	over $1,200,000,000

If, then, we consider the extent to which the credit system is carried in private transactions in England, and especially the enormous accounts run up by the nobility and gentry, we shall have no difficulty in arriving at the conclusion that the amount of always existing debts, for which no notes or bills of exchange are given, is at least equal to that of those for which they are given. If this be the case, we have:

Bank deposits	$2,900,000,000
Bills of exchange	1,200,000,000
Private or other debts for which no bills are given	1,200,000,000
	$5,300,000,000

$5,300,000,000 of purchasing power—nine times the volume of the currency of the country—almost wholly the result of the use of credit. By the aid of bank checks and clearing houses, this credit system is maintained with the smallest possible allowance of bank notes and specie—Mr. Palgrave placing the bank reserve of all Great Britain as low as four (4) per cent., $116,000,000, while the daily average clearings of the London Clearing House alone are nearly $100,000,000. The bank deposits, almost wholly the creation of the banks, through the loan of their credit, are, for all purposes of buying for consumption, trade, and speculation, as efficient and as active as circulating notes. The bills of exchange and private debt-charges lack the activity of circulating notes and bank deposits, but are permanent and constant representatives of the power of purchase, until a crisis comes to contract their volumes.

If these, then, be the results of repressive monetary legislation in the home of David Hume, and in the land in which his doctrines have so long reigned supreme, is it not entirely evident that all legislative attempts to control the trading and speculation of an active, enterprising, intelligent, and free people, by imposing an arbitrary limit to the amount of their circulating medium are utterly futile? Is it not even worse than this; for does not such legislation, while depriving those people of the power to deal for cash, force them to resort to the various forms of credit —at once the forerunner of financial crises and the food on which those crises feed? But, further, does not this particular system look somewhat like *inflation run mad,* and is not the fact that under it all commodities are not dearer in Great Britain than in every other country in the world evidence conclusive against the soundness of the contractionist's great theory?

Let any one for a moment consider what would be the practical results to England if its people had permitted themselves to be limited in their operations by the $600,000,000 of circulating medium furnished to them by or through their government. The prosecution of her immense manufactures and foreign trade would be an utter impossibility, and it would be entirely out of her power to negotiate the large loans to foreigners, which are paid for by her exports of manufactured goods, and *the permanent carrying of which loans is only possible by reason of the existence of this large volume of bank and other credits.* Nevertheless, this system of credit, which has grown out of persistent, long continued, and vicious legislation in regard to money, is top-heavy and

essentially unsound and dangerous, and liable to tumble over at any and at all times. During the war of the rebellion, through our ample supply of currency and our great business activity, we were enabled to carry almost our entire government indebtedness, and it was not until peace came, and with it contraction of that currency, that it became necessary to seek foreign aid. Before that contraction commenced our people were more free from debt, in proportion to the volume of business, than at any previous period in our history. All this is, alas! now most sadly changed.

The circulation of the Bank of France, October, 1873, was nearly $600,000,000, and although specie payments have been suspended since September, 1870, gold and silver there circulate freely, the premium being but about ½ per cent., and there cannot be less than $700,000,000 of those metals in the country. The private deposits in the bank were less than $45,000,000, and business is at all times largely done for real cash. In Germany a very similar state of things exists.

Let Congress, then, as in duty bound, dismiss from its thoughts at once, and forever, any belief in the fallacy which Hume has given to the world, that prices are fixed "by the proportion between commodities and money," and in the sad delusion that it is in the power of any legislative body, in fixing an arbitrary limit to the circulating medium of a people like our own, or the English, to put a limit to their business transactions. When once they shall have so far cleared their mental perceptions, they will be prepared to give us *a full supply of national paper money having the feature of interchangeability (at the option of the holder) with government bonds bearing a fixed rate of interest.* In such interchangeability there is "a subtle principle that will regulate the movements of finance and commerce as accurately as the motion of the steam-engine is regulated by its governor," and thus protect the people and the State from the dangers incident to all arbitrary empirical limiting of the circulating medium—in regard to the requisite volume of which, no *a priori* judgment can enable any man or body of men to decide upon and fix correctly. When once we are freed from the practice of such empiricism, then shall we have financial stability and security against those terrible crises which have so often visited Great Britain and the United States, the two countries, of all Christendom, the most completely under the domination of the bullionist fallacies of inflation, and of the power of legislative bodies to limit and control the business operations of a people. Then shall we have prosperity, happiness, and real peace, and forever rid ourselves of that element in our system which, by creating panics and crises, is the most potent in making the rich richer and the poor poorer.

HENRY CAREY BAIRD.

PHILADELPHIA, November 7, 1873.

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CASH AND THE CREDIT SYSTEM.

A Letter to the Hon. Justin S. Morrill, U. S. S., Member of the Senate Finance Committee.

Dear Sir: I see that you have introduced into the Senate a bill for Resumption of Specie Payments and for Free Banking, and I beg that you will pardon me for saying, that, bad as "resumption" would be alone, "free banking" added to it would be an additional ill, and I shall endeavor to point out to you how and why this would be so.

Let us take a look at the credit system, and ask why does this system exist? Is it not because, in those countries where it is made use of, there is a lack of sufficient "current money of the realm" to enable the people always to pay cash? Is not this credit system, which results in so much misery, so much ruin, so much uncertainty, the very child of contraction—of an inadequate currency?

Look at Great Britain to-day, with, perhaps, $600,000,000 of circulating notes and gold and silver. This volume is so inadequate that banks and private individuals have called to their aid credit, in the shape of deposits, bills of exchange, etc., to an amount equal to, if not exceeding, $5,300,000,000. The consequences are, an amount of speculation and financial instability, with a prevalence of crises, without a parallel elsewhere in the world.

For fifty years, the "Reformers," so called, of Great Britain have been trying all kinds of nostrums for the elevation and contentment of the people. To-day it is household suffrage, yesterday it was free trade, to-morrow it will be land reform and a disestablished church. And what have any of the remedies that have actually been tried resulted in? Positively nothing. The condition of the agricultural population of England to-day is worse than it was a century ago. Any improvement anywhere may be more than accounted for by emigration and by trade-unionism, not by the work of the "Reformers."

Now why does the yawning chasm there between the rich and the poor go on steadily widening? The answer is, by reason of the financial instability of the country, resulting in crises, than which nothing has a more centralizing influence—rendering the rich communities and people richer, and the poor communities and people poorer. Palgrave, in his recent valuable *Notes on Banking*, states that the bankruptcies in England, in 1865, were *one in every* 1500 *inhabitants*. When we consider that half the inhabitants were females, and that, say two-thirds the other half were minors, we have about one bankruptcy in every 250 inhabitants capable of becoming bankrupt. But probably not over one in five of these had any credit, so that in reality in a single year one in every fifty persons who were able to use the credit system became a bankrupt. Such ups and downs as there take place, use up the little men, rob the poor of their savings, and enable the already rich and powerful to buy up houses, lands, merchandise, securities, etc., which the poor are obliged to throw overboard, and thus do "the rich become richer and the poor poorer."

Now this is just what is going on in this country to-day, and every day makes the matter worse. I am assured that the mere sheriff's fees upon the last batch of sheriff's sales in this city last week were $10,000.

So far from increasing the base of "current money of the realm," as I read your bill, you propose to reduce it, and, having done so, to allow any and all men to pile up *upon this decreased base* any amount of superstructure of bank credit their cupidity may dictate; thus, while making the people pay interest for the use of this credit, we shall have a top-heavy fabric which, like the English one, will be periodically tumbling over and burying the moderately rich, *who have been tempted to use this credit*, and the poor in the ruins. The rich, who alone can get on top, will come out richer than before, after absorbing the hard-earned wealth of the middle class—*the very men and women who saved this nation in the hour of its greatest peril.*

Better, far, instead of giving unlimited expansion to this expensive and unstable bank-credit system to expand the legal-tender currency, and thereby increase the power and the disposition of the people to buy for cash, and thus give real stability to the business of the country. That these things would result from such expansion of legal tenders is proven by the fact that at the end of the late war almost the entire business of the country was being transacted for cash, and that with a fall of 25 per cent. in the value of nearly every species of merchandise within thirty days, there was no crisis whatsoever. With Mr. McCulloch's contraction measures, however, this cash system soon began to fade away, and in its place is now found an amount of foreign and domestic debt exceeding that of any previous period in our history, winding up with a terrible and desolating financial crisis.

In France you will find a country with probably more nearly an adequate supply of currency than any other in the world—$600,000,000 of Bank of France notes and not less than $700,000,000 of gold and silver coin. The private deposits in the bank are now but $45,000,000, and the business of the country is largely done for cash.*

Let us, then, instead of an attempt to revive aud extend the credit system in this country in any form whatever, rather have *a full supply of national paper money, having the feature of interchangeability (at the option of the holder) with Government bonds bearing a fixed rate of interest.* In such interchangeability there is "a subtle principle that will regulate the movements of finance and commerce as accurately as the motion of the steam-engine is regulated by its governor," and give us a currency always adequate to the demands of a cash system of trade and commerce, and never in excess.

By such means alone shall we be enabled to free ourselves from the domination of an expensive credit-system, than which probably no other element in the conduct of human affairs, in a free country, is productive of more sorrow, ruin, and demoralization.

Earnestly inviting your consideration of this view of a vitally important question, I have the honor to be your most obedient servant,

HENRY CAREY BAIRD.

PHILADELPHIA, December 10, 1873.

* The prompt and remarkable manner in which France has paid $1,000,000,000 indemnity to Germany, in addition to bearing the other burthens of the late war, presents to view all the evidence which needs to be adduced as to the wealth of that country, a wealth, too, which has been accumulated in spite of constant wars and revolutions, and of a large standing army of non-producers to eat up the substance of the people.